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EX PARTE OR LATE FILED

September 10, 2002

RECEIVED & INSPECTED

SEP 11 2002

FCC - MAILROOM

Memorandum of Ex Parte Presentation

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: CC Docket No. 01-338, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers;
CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; and
CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability

Dear Ms. Dortch:

This is to supplement SBC's September 6, 2002, letter concerning an ex parte meeting between Edward Whitacre, Chairman and Chief Executive Officer, William Daley, President; Randall Stephenson, Senior Executive Vice President and Chief Financial Officer; James D. Ellis, Senior Executive Vice President and General Counsel; and James C. Smith, Senior Vice President, representing SBC Telecommunications, Inc., and Chairman Michael Powell; Marsha MacBride, FCC Chief of Staff; and Christopher Libertelli, Chairman Powell's Legal Advisor for Wireline Competition.

The purpose of the meeting was to discuss issues associated with the financial and investment impacts of the UNE Platform. The presentation filed, referenced several analyst reports that were also discussed, and are respectfully submitted for inclusion in the record of the above captioned proceedings.

Please contact the undersigned at (202) 326-8847 should you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. J. L.", written in dark ink.

Attachment

cc: Chairman Powell
M. MacBride
C. Libertelli



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Attachment

cc: Chairman Powell
M. MacBride
C. Libertelli



Brian J. Benison
Associate Director
Federal Regulatory

SBC Telecommunications, Inc.
1401 I Street, N.W., Suite 1000
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Memorandum of Ex Parte Presentation

SEP - 6 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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445 12th Street, SW
Washington, DC 20554

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CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, and
CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability


Dear Ms. Dortch:

On September 5, 2002, Edward Whitacre, Chairman and Chief Executive Officer, William Daley, President, Randall Stephenson, Senior Executive Vice President and Chief Financial Officer, James D. Ellis, Senior Executive Vice President and General Counsel, and James C. Smith, Senior Vice President, representing SBC Telecommunications, Inc., met with Chairman Michael Powell, Marsha MacBride, FCC Chief of Staff, and Christopher Libertelli, Chairman Powell's Legal Advisor for Wireline Competition.

The purpose of the meeting was to discuss issues associated with the financial and investment impacts of the UNE Platform. The attached material was discussed during the course of the meeting.

Please contact the undersigned at (202) 326-8847 should you have any questions.

Sincerely,

Brian Benison 

Attachment

cc: Chairman Powell
M. MacBride
C. Libertelli

UNE-P: Impacts and Implications

Prepared for the
Federal Communications Commission



SBC.com

Agenda

Overview

Ed Whitacre

Financial Review

Randall Stephenson

Financial Trends

UNE-P Impacts

Summary

Bill Daley

Overview

Ed Whitacre
Chairman and Chief Executive Officer
SBC Communications Inc.

Financial Review

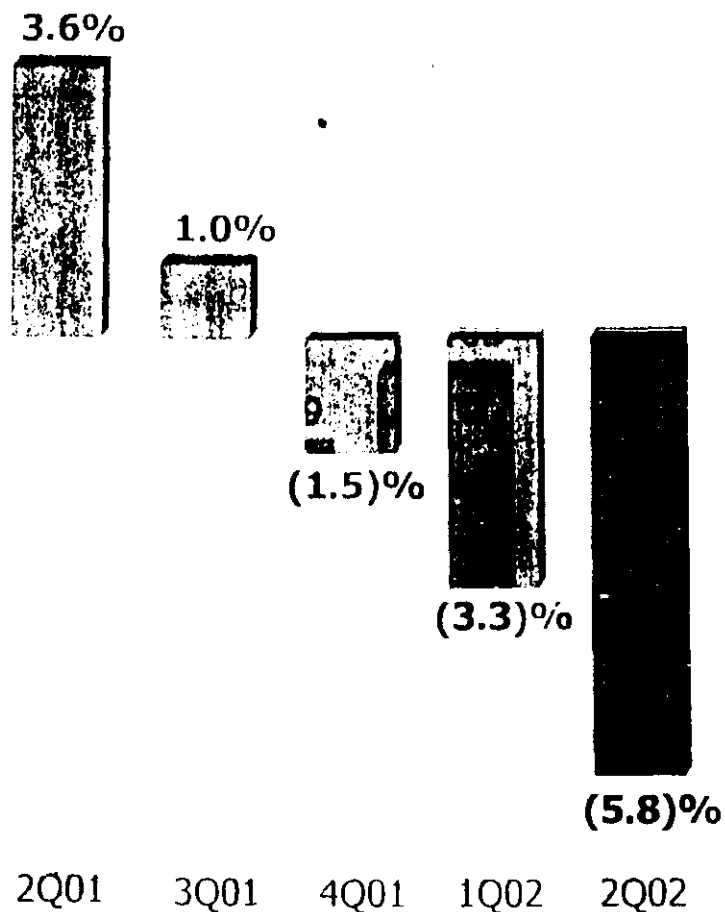
Financial Trends

UNE-P Impacts

Randall Stephenson
Chief Financial Officer
SBC Communications Inc.

Wireline Revenues

**SBC Wireline Revenues,
YOY Growth Rates**



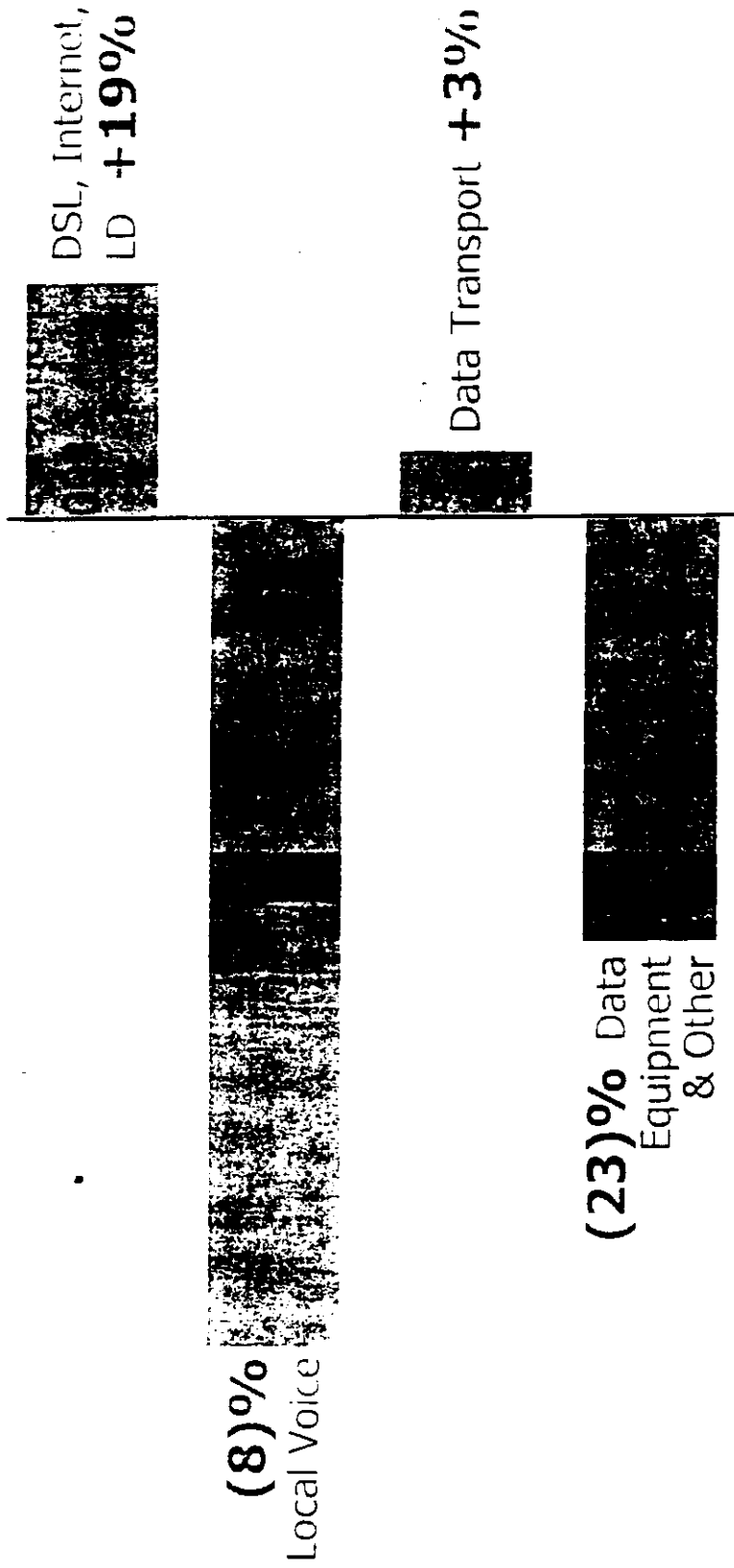
Down more than \$1 billion over the past three quarters.

More than half of that loss came in the most recent quarter.

Assuming annual revenue declines continue at current pace (5.8)% -- no further acceleration -- over the next four quarters, we will lose another \$2.3 billion from our wireline revenue stream.

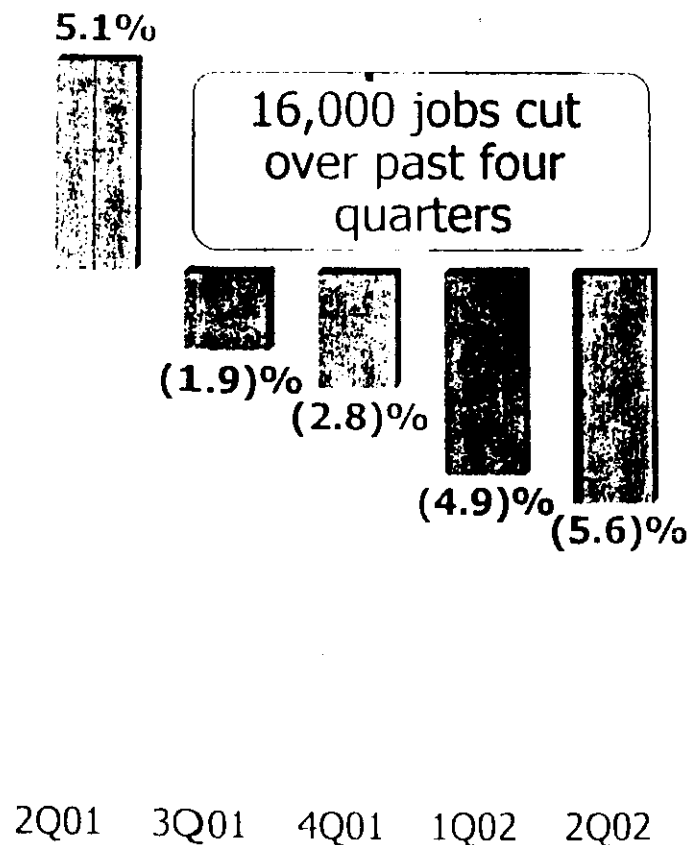
Local Voice Driving Revenue Decline

2Q02/2Q01 Changes By Product Group

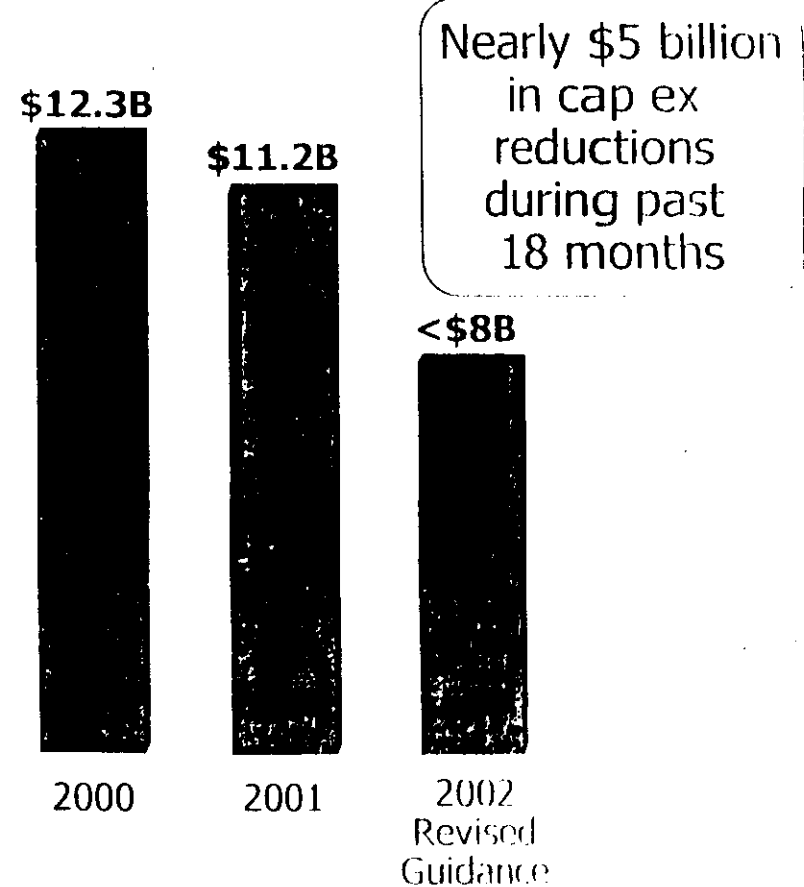


Cutbacks in Jobs and Investment

**SBC Wireline Cash Operating Expenses,
YOY Growth Rates**



SBC Annual Capital Investment



A Shrinking Business

SBC Wireline Results

	2Q02/2Q01
Revenues	(5.8)%
Cash Operating Expenses	(5.6)%
Depreciation & Amortization	1.2%
Operating Income	(12.6)%
Capital Investment	(41)%

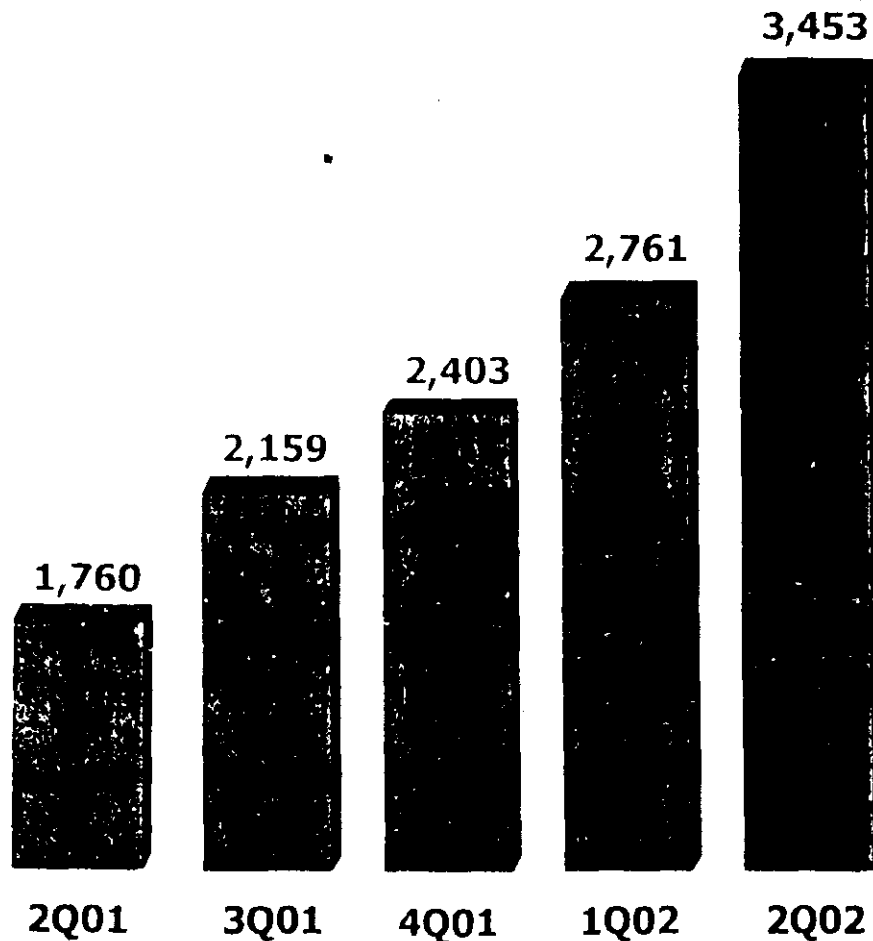
. Financial Review

Financial Trends
UNE-P Impacts

Randall Stephenson
Chief Financial Officer
SBC Communications Inc.

UNE-P Adoption

SBC UNE-P Lines In Service
2Q 2002
(in thousands)



Over the past year, UNE-P lines in service have doubled.

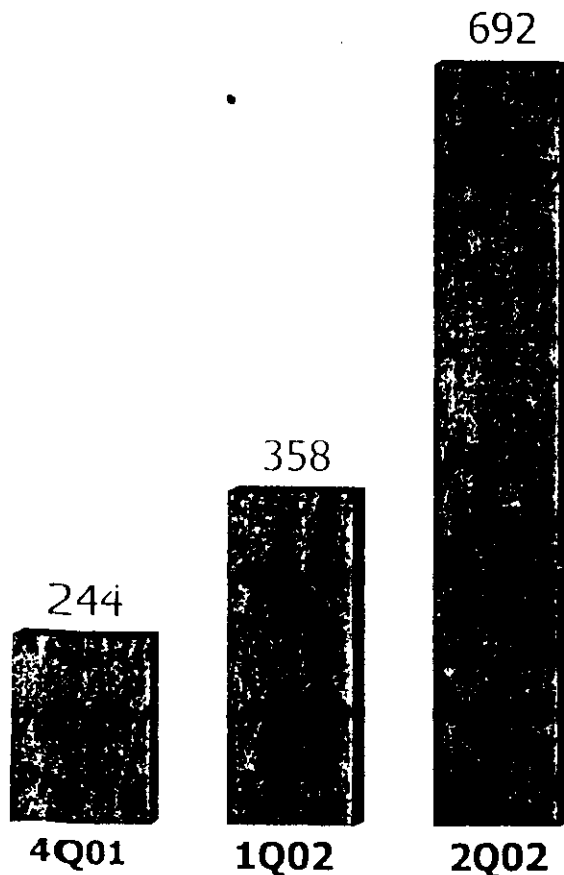
We have lost 3.5 million lines... nearly equivalent to losing the state of Ohio.

SBC still has 1 million resale lines likely to be converted to UNE-P.

SBC's market share is currently 85%. Projected to be 66% by end of 2003.

UNE-P Acceleration

**SBC UNE-P Lines Added
Per Quarter – 13 States**
(in thousands)



SBC loses 12,000 lines per day to UNE-P. Projected to be 29,000 per day by end of 2003.

UNE-P lines added in 2Q02 were more than 70% greater than any previous quarter.

As states have dropped prices, facilities-based competition has lagged and UNE-P has become the dominant means to compete with SBC.

Competition Trends

Lines Added 13-States

600K

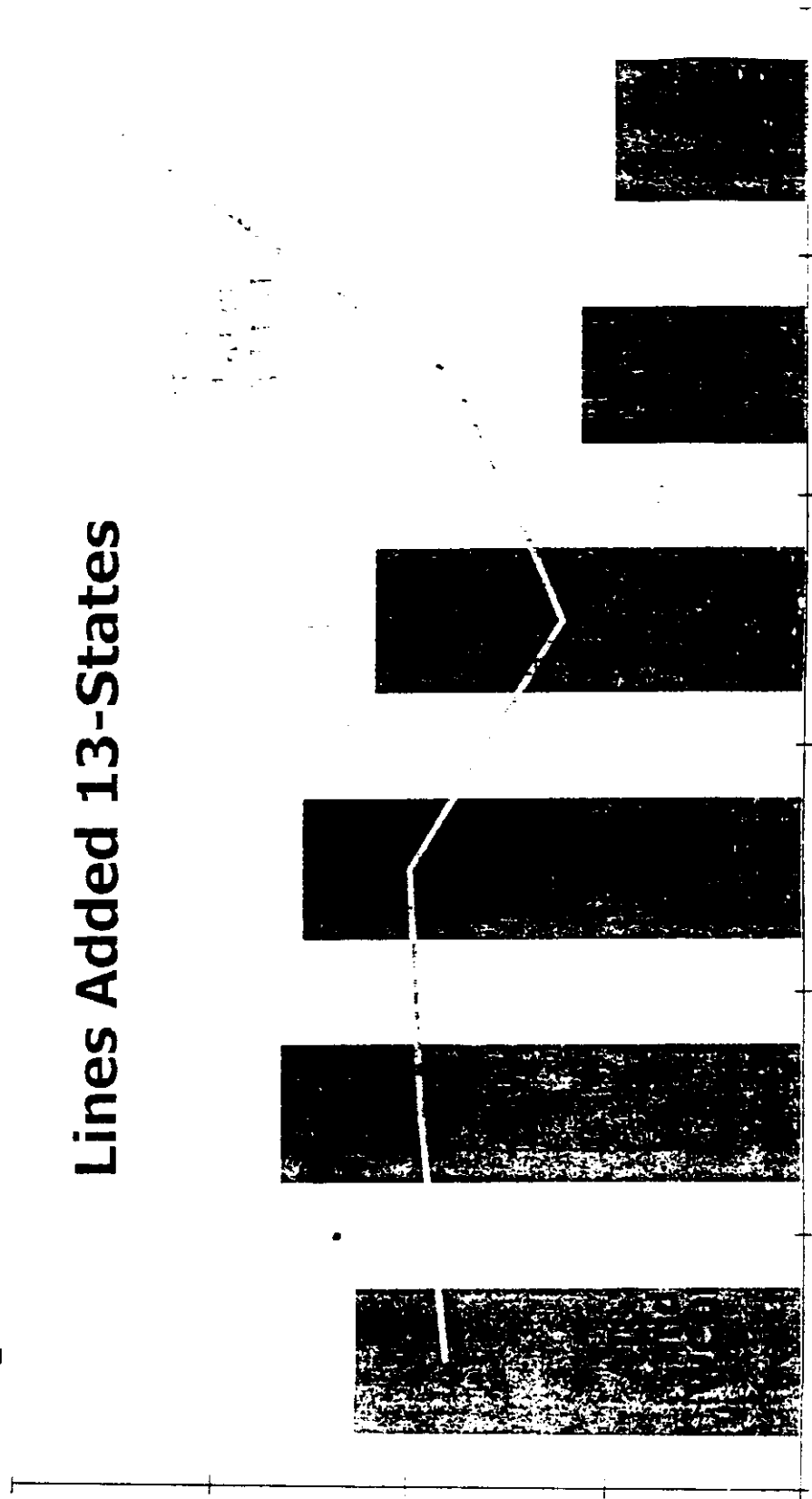
400K

200K

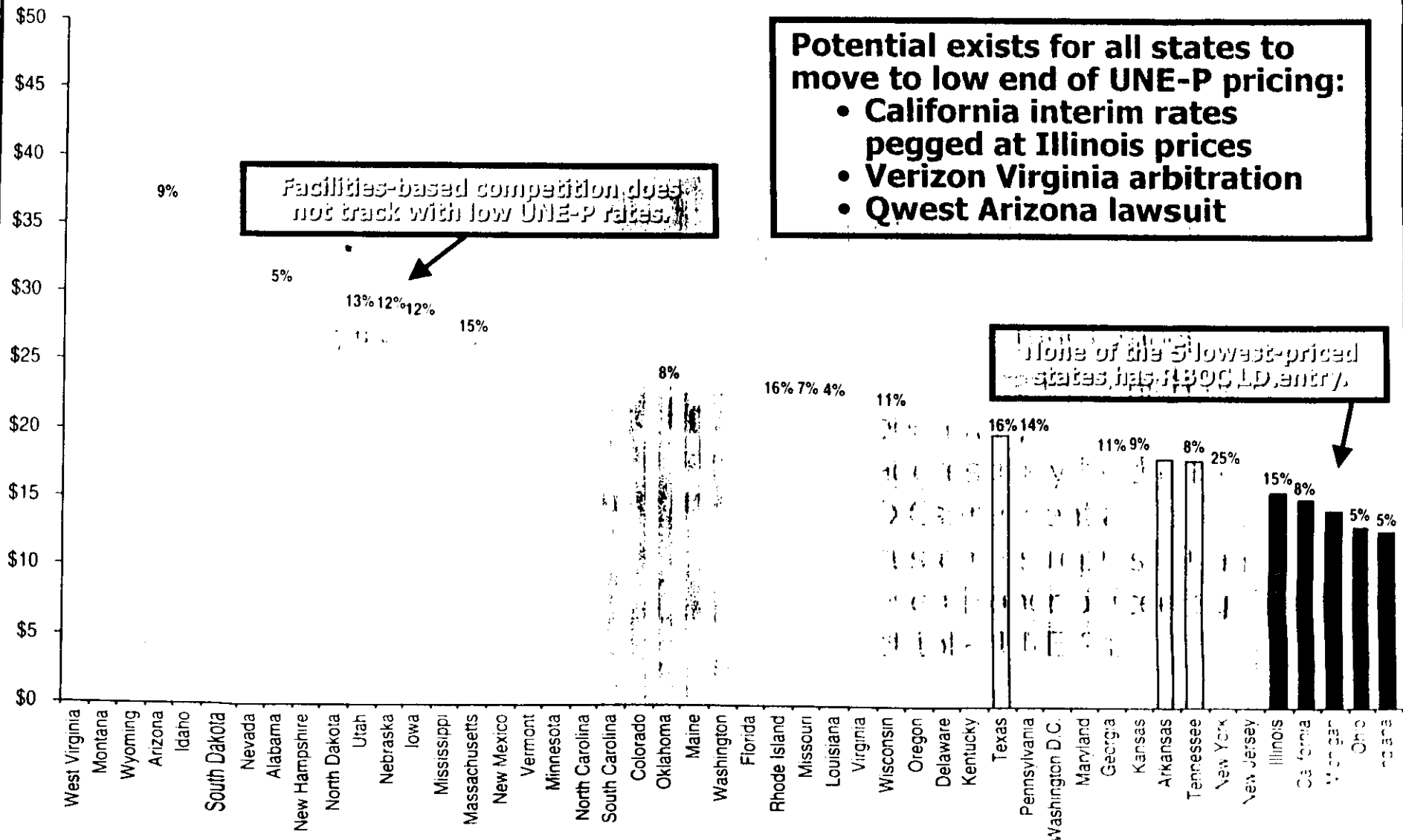
1Q01

2Q02

Facilities Based Lines Added

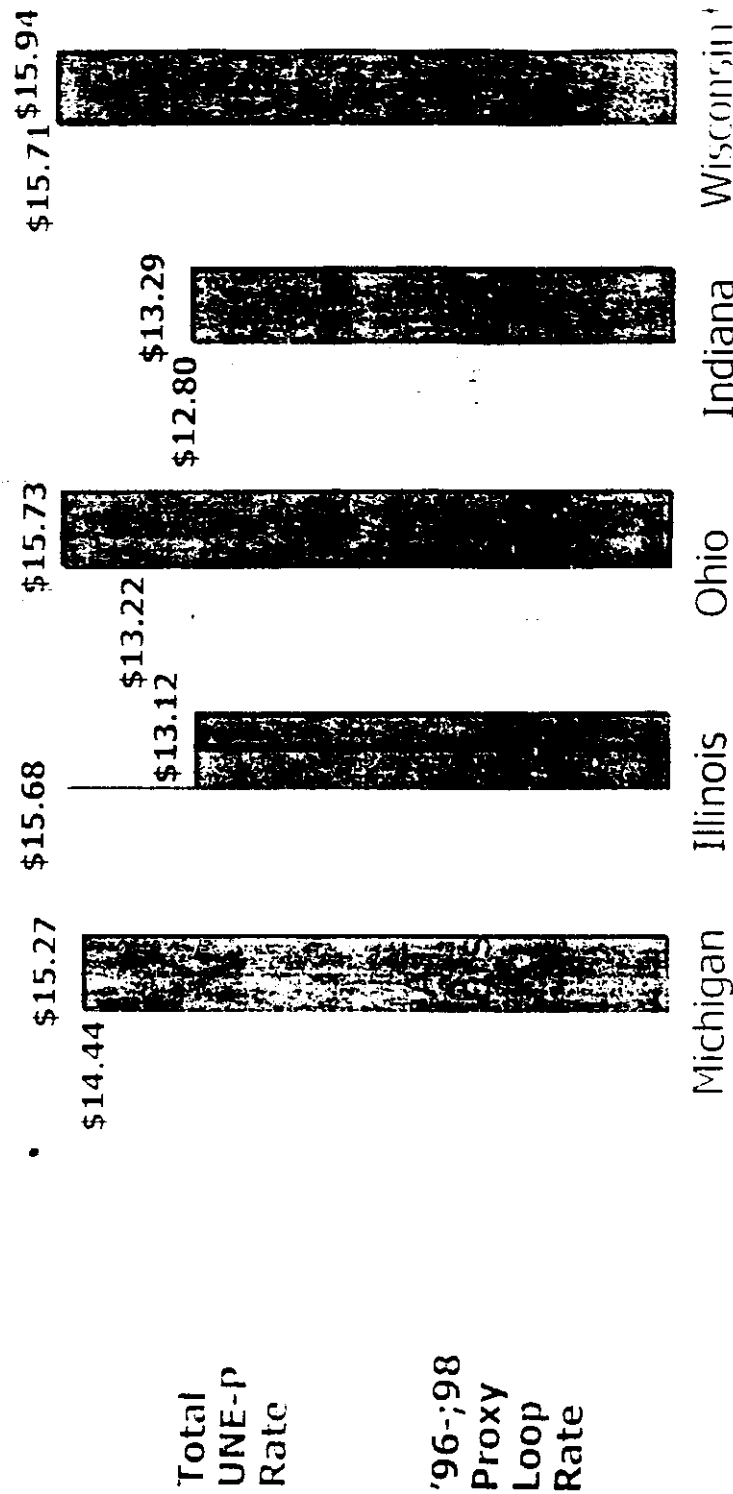


The Five Lowest-Priced UNE-P States Are All SBC Markets



Percentage of end-user switched access line served by reporting competitive local exchange carriers source: FCC Industry Analysis Division Common Carrier Bureau, "Local Telephone Competition" Status as of December 31, 2000

UNE-P Rates vs FCC Proxy Loop Rates



* Estimated impact of pending order.

IXCs Exploit Very Large UNE-P Discounts

	Total Recurring UNE-P Rate*	Discount From Retail Residential	Below Non-SBC National Ave
Illinois	\$15.68	55%	39%
Michigan	\$14.44	63%	44%
Ohio	\$13.22	57%	48%
Indiana	\$12.80	62%	50%
California	\$15.24	47%	40%
Wisconsin**	\$15.71	48%	39%

**All have
recently
ordered
lower prices**

* Per Anna Marie Kovacs of Commerce Capital Markets, Inc. May report on UNE-P adjusted to reflect only recurring rates and recent rate changes.

** Estimated impact of pending order.

Simple Margin Transfer With No Investment

Ameritech Consumer 5-State Averages

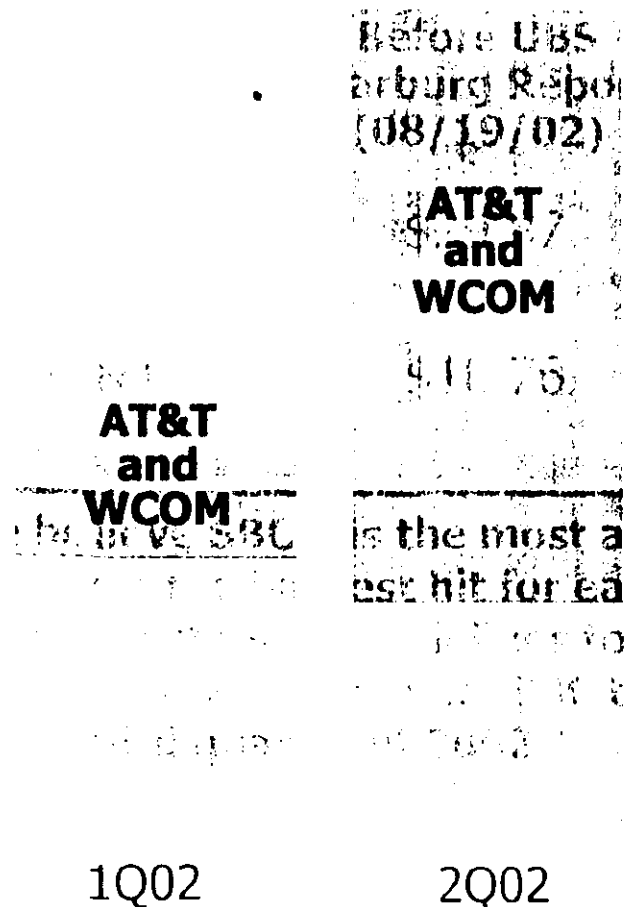
	<u>SBC Retail</u>	<u>SBC UNE-P</u>	<u>IXC Using SBC UNE-P</u>
Revenue	\$36	\$15	\$41
Expenses	*\$26	*\$26	**\$23
Operating Margin	\$10	\$(11)	\$18
Capital Investment	\$1,100	\$1,100	\$0
<i>Capital Investment</i>	✓	✓	
<i>Service Quality</i>	✓	✓	
<i>Regulated</i>	✓	✓	
<i>Universal Service Provider</i>	✓	✓	

* Excludes cost associated with data services.

** UNE-P plus 20% SG&A.

UNE-P Predominantly Used by the Two Largest IXC's

SBC UNE-P Lines
Added Per Quarter



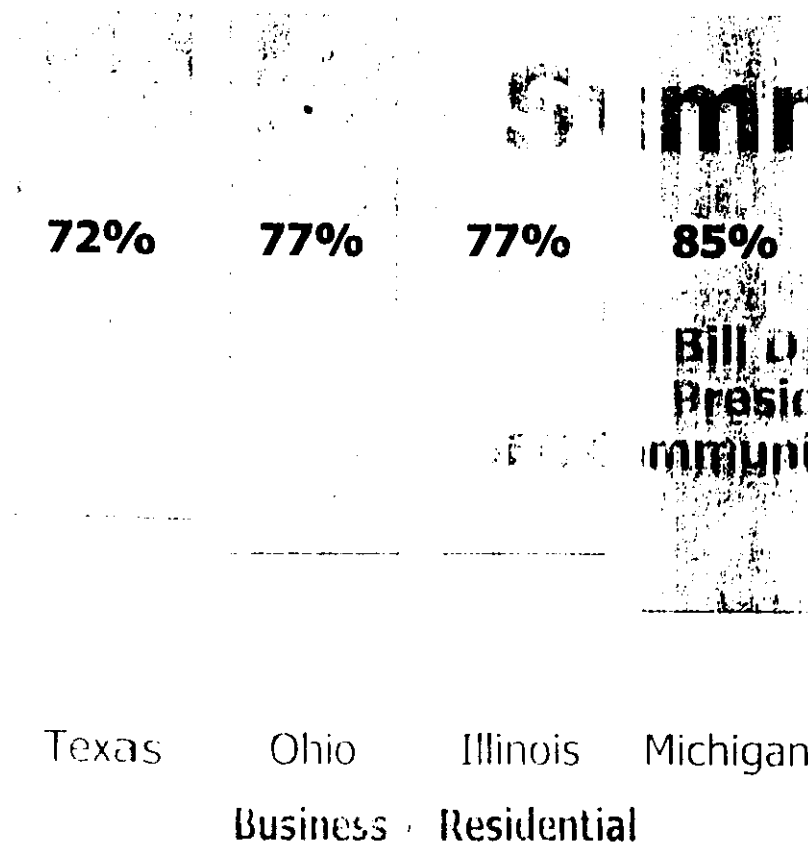
More than 70% of SBC's UNE-P lines added in 2Q02 were for the two largest IXC's.

From 1Q02 to 2Q02, UNE-P lines added for AT&T and WorldCom/MCI tripled while UNE-Ps added for others actually declined.

WorldCom receivables to SBC and its affiliates have grown to more than \$400 million.

Dominant Use of UNE-P: To Target Residential Customers

**SBC UNE-P Lines In Service
SBC's Four Largest UNE-P States**



Across SBC's 13 states, more than 70% of all UNE-P lines are residential.

In SBC's four largest UNE-P states, which have been targeted most aggressively by the large IXC's, residential customers represent an even higher percentage of total UNE-Ps.

IXC Lead Offers

(Ameritech states)

AT&T

Pricing: \$52.57 *

Local Service

Access line

Calling features (3)

Long Distance

Unlimited to other AT&T
residential consumers

MCI/WCOM

Pricing: \$49.99 *

Local Service

Access line

Calling features (5)

Long Distance

Unlimited long distance
calling

* Pricing includes interLATA long distance but excludes Subscriber Line Charge and other miscellaneous taxes and fees.

Source: Company's website

- MCI's offer is their lead offering "Neighborhood Complete" at \$49.99
- AT&T's offer includes their lead local "Call Plan Unlimited with 3 Feature Package Enhanced" at \$29.95-34.95 and their long distance offer "Unlimited Plan" at \$19.95. Offered in IL, OH and MI.

SBC Provides Residential Universal Service While IXC's "Cherry Pick" Profits

IXC offers target premium customers rather than universal service.

Ameritech Residential Customer Spending

		Ave Rev per Line	% of Total SBC Revenue	% of Total SBC Profit
IXCs	Quartile 1	\$43-\$54	36%	72%
	Quartile 2	\$36-\$43	29%	41%
SBC	Quartile 3	\$24-\$36	21%	9%
	Quartile 4	\$0-\$24	14%	(22)%

SBC's resulting customer base will be unprofitable, with no funds for investment.